

Chapter 3

Foundation for Value Creation

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Message from the Sustainability Officer

Aspiring to be a company
continuously needed by the market
and by society

Hideaki Takubo
Managing Officer
Corporate Functions Head



My perspective on the role of a sustainability officer

Global environmental issues such as climate change, human rights concerns, and many other social issues are emerging as increasingly serious problems. Consequently, society has very high expectations of the actions companies are taking toward resolving these issues. Businesses are expected not only to seek profits but also to take environmental, social, and governance (ESG) actions and strive to achieve the SDGs. I feel that companies failing to meet these demands will be unable to survive.

The Daifuku Group aspires to remain a company trusted and needed by society through increasing its customers' competitive advantage with its core competence of automated material handling technology, while simultaneously making sure its solutions are based on consideration to people, the environment, and resolving social issues. For this purpose, it is vital to retain and improve intangible assets, such as technologies, expertise, personnel, and corporate culture. I understand that my duties are to learn about what impacts social issues have on the Group's business capital and what changes there are in social demands. I will then incorporate them into management policies and strategies in collaboration with Daifuku's business units and share the viewpoint of sustainability across the Group.

Our new management philosophy following the October 2021 revision points to a policy of being needed by the market, gaining the trust of society, and enriching business capital with the use of automated material handling technology. I believe that the Group can achieve continuous growth when all of its officers and employees share a vision and move in the same direction even as the surrounding environment changes.

Initiatives over the past decade

(FY)

2011	Formulates Daifuku Environmental Vision 2020
2012	Daifuku Eco-Products Certification Program introduced
2014	Joins the United Nations Global Compact
2019	Assents to the Task Force on Climate-related Financial Disclosures (TCFD)* recommendations First selected as a constituent of the ESG investment indicators "FTSE4Good Index Series" and "FTSE Blossom Japan Index"
2020	Discloses information in accordance with the framework recommended by the TCFD Launches the Sustainability Committee Reviews and re-identifies the Group's materiality with the aim of achieving both continued management growth and the realization of a sustainable society that the SDGs aim for Discloses Daifuku Environmental Vision 2050
2021	Discloses the Sustainability Action Plan

* Established by the Financial Stability Board, an international organization comprising representatives from the central banks, financial supervisory authorities and the finance ministries of the major nations and regions

Activities of the Sustainability Committee

To create a sustainable society through business, the Group has identified 18 material issues (materiality). We have been executing the Sustainability Action Plan, which is a three-year action plan for addressing these problems. This plan and the three-year business plan kicked off in April 2021 are the cornerstones of our management strategy. Chaired by the CEO, the Sustainability Committee manages our progress. For the initial year, namely fiscal 2021, results were roughly in line with the targets. They are regarded as a product of efforts made by individual employees in the Group. We put particular emphasis on environmental and human rights issues, and formed separate subcommittees for addressing these issues under the Sustainable Committee in fiscal 2021. Our business units and Corporate Functions unit are working hand-in-hand in this respect.

With regard to the environment, we unveiled Daifuku Environmental Vision 2050 in February 2021, concurrently with the ongoing three-year business plan, which aims for a world where our material handling systems have zero environmental impact in 2050. It also defines two crucial issue areas: climate change and energy, and resource recycling. In each of these areas, we set a target for 2030. We are focusing our efforts on energy conservation measures through the development of environmentally friendly products and the optimization of the operations of the overall system, as well as through requests to major suppliers to reduce their CO₂ emissions. We are thus working toward realizing our vision.

To address human rights issues throughout the entire supply chain, we are striving to develop a mechanism of human rights due diligence in accordance with the Daifuku Group Human Rights Policy established in October 2021. From fiscal 2022 to fiscal 2023, we will identify and evaluate latent and actual risks of negative impacts on human rights arising from our overall business activities worldwide. We will then introduce measures that tackle the problems.

Actions for enhancing human capital

Enhancing human capital across the Group is indispensable to its continued growth. Amid the ongoing globalization of business, we need to address the questions of how we should manage our human resources, including those of non-Japan subsidiaries, and how we should share and develop our long-established, open-minded corporate culture and the values we cherish.

Since fiscal 2021, we have been working to determine the competencies—namely, the behavioral traits and attitudes—expected from the Group's staff, to clearly specify key positions and to prepare for the systematic development of successors so as to construct foundations for personnel management throughout the Group. We will use these competencies as the basis of staff evaluation and development in the future. We will also conduct Groupwide personnel development measures such as staff transfers and exchanges between business units.

Also in fiscal 2021, we carried out an engagement survey of employees of Japan-based Group companies, focusing on the two aspects of job satisfaction and employee-friendliness. The survey revealed that our strengths lay in our customer orientation and confidence in management, while our weaknesses were in collaboration among organizations and support for the career development of individual employees. In response, we will combine Companywide measures with activities for improvement in separate business units with a view to enhancing staff engagement. Going forward, we will expand the scope of engagement surveys to non-Japan subsidiaries to forge a sense of unity throughout the entire Group.

To stakeholders

The Group will follow its management philosophy of "Automation that Inspires." We will seek to create economic value as well as social and environmental value with our automated material handling technology, and in doing so will contribute to the building of a sustainable society. To be a company needed by stakeholders in the future, we will strive to fulfill the targets set in the three-year business plan and in the Sustainability Action Plan without fail, and will continuously enhance our efforts.

Basic approach

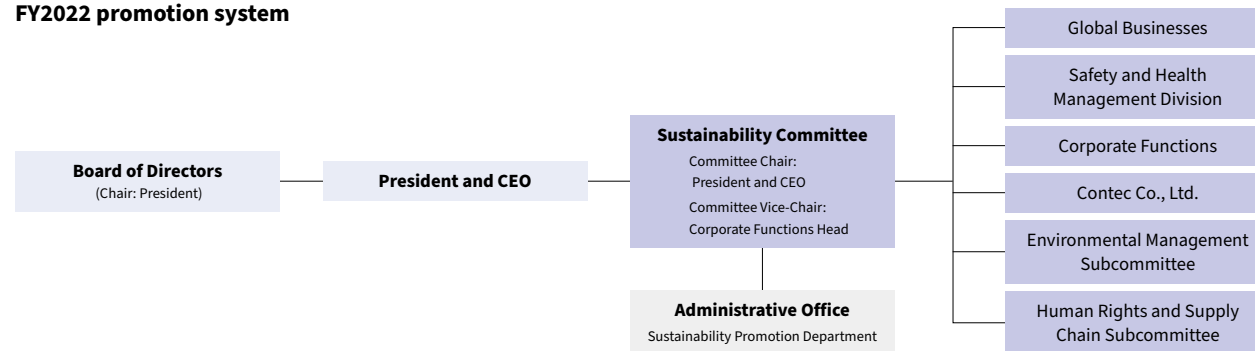
The Daifuku Group aims to achieve a sustainable society and enhance corporate value in accordance with the Group Code of Conduct, based on the company creed, “Hini Arata,” and our management philosophy, “Automation that Inspires.”

In putting our sustainable business to practice, we assented to and signed the United Nations Global Compact (UNGC), which encompasses 10 principles across the four fields of human rights, labour, environment, and anti-corruption; and, we are also working to achieve the SDGs, which were adopted by the UN. Moreover, the Group positions the three-year business plan and the Sustainability Action Plan as the cornerstones of its management strategy, and all employees strive to achieve both social value and economic value through our business activities.

Sustainability promotion system

The Sustainability Committee—a Groupwide advisory body to the Board of Directors—is chaired by the CEO and includes the Global Business Head of each business unit. The Committee provides top management with instructions on the implementation of action policies and plans regarding climate change and various other issues, and reports the details of its initiatives to the Board of Directors as needed. In addition, the Environmental Management Subcommittee and the Human Rights and Supply Chain Subcommittee have been established under its auspices, and are working on specific initiatives according to their respective goals.

FY2022 promotion system



Members	<ul style="list-style-type: none"> Committee Chair: President and CEO Committee Vice-Chair: Corporate Functions Head Members: Global Business Heads, President and CEO of Contec Co., Ltd., Safety and Health Management Division Manager, Human Resources and General Affairs Division Manager, Legal and Compliance Division Manager, Business Strategy Operations, Corporate Communications Operations, Finance and Accounting Division Manager, General Managers of Investor Relations Department and Governance Promotion Department
Voluntary participation	Outside directors, full-time Audit & Supervisory Board members

FY2021 Sustainability Committee activities

Sessions	Five sessions (May, August, October, December, March)
Main agenda	<ul style="list-style-type: none"> Progress management of the Sustainability Action Plan Future measures based on risk assessment results Priority measures in each subcommittee In-house sustainability awareness measures Discussion and approval of human rights policy Planning and promotion system for fiscal 2022, and other



Contribute to a smart society

Amid an accelerating global trend toward automation and scaling up of logistics operations, investments in alleviating labor shortages and boosting productivity are expected to grow even more in the future. The Daifuku Group will work to expand its existing domains and open new ones as it seeks to respond to ever-advancing needs in society. We will develop new, and use existing, cutting-edge technologies to further increase the value we offer to stakeholders. In doing so, we aspire to help realize a smart society.

Sustainability Action Plan

Promote innovative technological development and invention

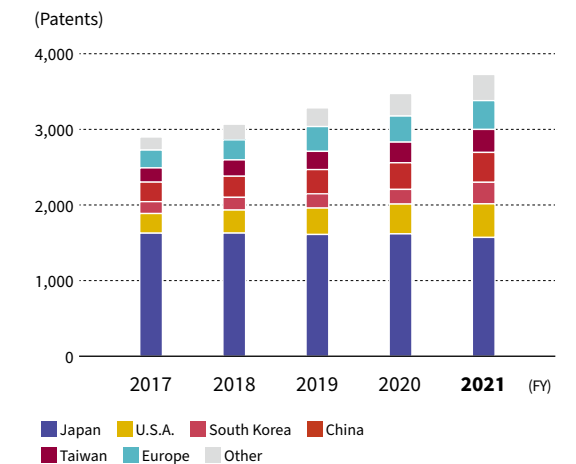
2030 Goals Innovate to create new value for the distribution system

KPIs	Scope	FY2021 targets	FY2021 results
Innovation investment amount*	Global	15.0 billion yen	13.0 billion yen
Patent registrations (cumulative total)		3,600 patents	3,726 patents

* R&D expenses + DX investment amount

Patents registered by region

The Group proactively seeks patent applications and the acquisition of rights primarily for newly developed products. In recent years, the number of patent applications outside Japan has been on the rise, and we hold patents in more than 30 countries around the world. In particular, there has been a steady rise in the proportion of applications we file in Asia, mainly China, South Korea, and Taiwan.



VOICE



Emiko Igarashi
General Manager
Business Strategy
Division

Seeking to establish smart logistics in collaboration with global business units

This division plans business strategies for the whole Group, studies M&A and alliances, supports the cultivation of new business domains, and promotes cutting-edge technology surveys and open innovation, all from a Groupwide standpoint. We work with global business units, carry out joint development with a number of universities and outside research institutions and conduct studies and proof of concept (POC) of AI, 5G and other cutting-edge technologies. Keeping in mind the company creed of Hini Arata and the management philosophy of “Automation that Inspires,” we will pursue our efforts in collaboration with global business units to realize smart logistics.

ESG and SDGs actions are indispensable to consistently strengthening the management foundations that support business expansion. For this purpose, we emphasize diversity and inclusion (D&I) and other principles. Achieving fulfillment by offering value to customers through business, we are determined to build a sustainable society.

Develop new business domains



2030 Goals Expand realm of business using business strategy (including M&A and alliances)

KPIs	Scope	FY2021 targets	FY2021 results
Penetration into new markets and new business conditions; commercialization of new products	Global	<ul style="list-style-type: none"> Collaborative research with universities and companies Provide new automated solutions Develop new customers, expand business area globally Expand service business 	<ul style="list-style-type: none"> Promoted the development of new products through open innovation with multiple universities and external research institutions Began supplying an in-house developed piece-picking robot Expanded new customer base and global business area through strategic alliance with Germany-based AFT Industries AG Service sales: +16.6 billion yen (+14%) over the previous fiscal year

Cater to customer needs through smart logistics



2030 Goals Use cutting-edge technology to improve efficiency and automate to create value for customers

KPIs	Scope	FY2021 targets	FY2021 results
Introduction of cutting-edge technology to products/services	Global	<ul style="list-style-type: none"> Use wireless/5G tech and rechargeable batteries Introduce high-efficiency systems and predictive maintenance systems using AI tech Reduce energy consumption with more sophisticated power supply equipment Make maintenance services more efficient with use of the IoT 	<ul style="list-style-type: none"> Conducted study on adoption of wireless/5G tech Currently evaluating various rechargeable batteries Highly efficient transport system using AI has been developed and adopted Predictive maintenance system is being trialed and data collection is underway Currently developing an advanced non-contact power supply device that reduces power consumption Launched maintenance services using various sensors and remote functions

Developing and introducing AI-based highly efficient transport systems

We employ AI to efficiently control a large number of vehicles that run on overhead transport lines in semiconductor factories. The software we developed in fiscal 2021 is designed to store past data, so as to always be able to predict what will happen many seconds ahead. It collects vehicle position data on a real-time basis and calculates prediction data from machine-learned travel records. This has improved accuracy in route control and increased transport volume by 10%. We introduced this software to our customers' systems and filed a patent application.



Maintain and improve the quality of products and services

At the Daifuku Group, all of our facilities are constantly working to maintain and increase the quality of our products and services. To meet the wide-ranging needs of customers across the globe, we are constructing a globally optimal production structure and instituting proper quality and risk management in compliance with standards in individual countries and regions.

Sustainability Action Plan

Optimize production through globalization



2030 Goals Achieve global optimized production

KPIs	Scope	FY2021 targets	FY2021 results
New/Expanded production sites to achieve production in optimal conditions; and other countermeasures	Global	<ul style="list-style-type: none"> Build a procurement network globally and share production technology Strengthen ability to respond at non-Japan subsidiaries (in sales, production/service) Optimally distributed production through consolidation/in-sourcing 	<ul style="list-style-type: none"> Currently sourcing global suppliers and verifying the quality of procured goods Production technologies such as manufacturing procedures and inspections deployed to non-Japan subsidiaries Enhanced responsiveness (development, design, production, etc.) through personnel training at non-Japan subsidiaries Carried out consolidation, shift to in-house production and construction of new plants to optimize local production for each product

Pursue product quality and safety



2030 Goals Earn customer trust in product quality and safety

KPIs	Scope	FY2021 targets	FY2021 results
Number of serious accidents related to product/system safety*1	Global	0 occurrences	0 occurrences
Rate of ISO 9001 global multi-site certification*2 in production sites		60%	62%
Number of employees who obtain safety assessor credentials*3	Japan	160 people	178 people

*1 Accidents caused by the malfunction of our products or systems leading to death or serious illness/injury during operations (injury or illness requiring 30 days or more of treatment)

*2 Carrying out reviews based on unified standards under the same schedule and certification authority, and obtaining and maintaining certification

*3 Credentials meant chiefly for designers that certify knowledge and abilities in the field of safety based on international safety standards

VOICE



Mark Johnson
Assistant Manager
Administration Dept.
Cleanroom Division

Seeking to build robust partnerships with customers

In the Cleanroom business, we perform quality management with a focus on three points: prioritizing customers, looking ahead to the future, and making changes. In doing so, we offer products and services that meet the highest expectations of customers. Our motivation derives from our aspiration to give satisfaction to customers and to maintain their confidence in Daifuku and the high marks they give us. We will continue to take pride in our work and to be unceasing in our efforts, aiming to build robust relationships with our customers.



Enhance operational framework

As business globalization progresses, it is vital to work to strengthen its business foundation across the Daifuku Group, with the aim of fulfilling its social responsibility toward our various stakeholders. The Group is taking steps to strengthen Group governance and risk management to ensure business management and the fulfillment of social responsibility.

Sustainability Action Plan

Strengthen governance

2030 Goals Further strengthen Group governance system

KPIs	Scope	FY2021 targets	FY2021 results
Improving effectiveness of the Board of Directors	Global	Carry out efforts to improve effectiveness	<ul style="list-style-type: none"> Held interviews with selected officers in addition to conventional questionnaires on the Board's effectiveness
Enhancing internal perceptions		Implement measures to propagate the Group Code of Conduct globally	<ul style="list-style-type: none"> Released the Compliance Guidebook to explain the Group Code of Conduct in six languages and propagated it globally Globally implemented e-learning on the Guidebook and the concept of compliance
Carrying out sound internal audits		Carry out internal audits in Japanese business units and non-Japan subsidiaries (total 300 cases, 3 years) and maintain compliance with internal evaluations	<ul style="list-style-type: none"> 125 audits (103 in Japan, 9 international, 13 specified audits) Internal evaluations determined the Group as compliant

Corporate Governance ▶ Page 84



Ensure compliance

2030 Goals Eliminate serious cases of corruption

KPIs	Scope	FY2021 targets	FY2021 results
Carrying out anti-corruption training	Global	Carry out training and follow-ups for Japanese and global parties with authority to accept/place orders	<ul style="list-style-type: none"> Created compliance training materials for global use in Japanese and English and carried out e-learning

Initiatives for strengthening compliance ▶ Page 94



Manage risk

2030 Goals Implement Group risk management, including non-Japan subsidiaries

KPIs	Scope	FY2021 targets	FY2021 results
Implementing countermeasures against major risks	Global	Carry out regular risk assessments and risk response training	<ul style="list-style-type: none"> Conducted a risk assessment through 49 officers of Group companies worldwide and identified five significant areas of risk

Risk Management ▶ Page 91

Ensure responsible procurement in the supply chain



2030 Goals Implement global CSR procurement

KPIs	Scope	FY2021 targets	FY2021 results
Establishing a CSR procurement system and expand range of operations	Global	Review CSR Procurement Standards and formulate new guidelines to be applied in Japan and abroad	<ul style="list-style-type: none"> Conducted different surveys to formulate new guidelines

Strengthen information security

2030 Goals Thoroughly implement internal global standards and continued operations

KPIs	Scope	FY2021 targets	FY2021 results
Number of global information security education sessions	Global	2 sessions	2 sessions
Number of global e-mail training sessions		3 sessions	3 sessions

Ensure transparent information disclosure and strategic communication



2030 Goals Strengthen stakeholder engagement

KPIs	Scope	FY2021 targets	FY2021 results
Number of dialog meetings held with shareholders and investors	Global	370 meetings (ESG-related: 10 meetings)	376 meetings (ESG-related: 16 meetings) → 1,241 companies (52 ESG-related)*
Enhancing communication with stakeholders	Japan	Carry out events for science and engineering students; get employees to participate in social contribution activities	<ul style="list-style-type: none"> Held "DAIFUKU Presents Discovery Hackathon 2021," a manufacturing event for science and engineering students to facilitate exchanges with students from Japan and abroad Contributed to local communities through voluntary cleanups and tie-up events with social welfare organizations, mainly in the Shiga region

* In fiscal 2022, KPI changed to: "Number of companies with which dialog meetings were held." Number of companies: Up 31 year on year

VOICE



Yasuhito Fukushima
Digital Dept.
DX Division

Improving the level of security for the entire Group

Our duties include constructing our information security platforms, introducing and managing security software, and collecting and analyzing logs from communication equipment. Given that information security must be ensured in both technical and human aspects, we regularly provide education and e-mail training aimed at raising employees' security awareness with a view to improving the level of security for the entire Group, including overseas subsidiaries. We will be actively studying the introduction of new technologies that are constantly becoming more sophisticated, to continuously increase user convenience and security strength, quickly understand the circumstances in the event of an emergency and construct the foundations to minimize any damage.

Respect human dignity

To ensure sustainable growth, the Daifuku Group is committed to creating a safe and rewarding work environment where each and every employee can develop their abilities and maximize their performance. As a precondition for this, the Group adheres to international standards such as the Universal Declaration of Human Rights, supports the ten principles of the United Nations Global Compact, and respects the human rights of its employees and all other parties in the value chain. In a fair and open corporate culture that respects diversity, each and every one of us will excel to meet the challenge of bettering ourselves.

Sustainability Action Plan

Protect employee safety and health



2030 Goals Eliminate labor accidents and major accidents in operations

KPIs	Scope	FY2021 targets	FY2021 results
Frequency rate: Japan (non-Japan)	Global	0.4 (0.9)	0.21 (0.65)* ¹
Severity rate: Japan (non-Japan)		0.02 (0.03)	0.002 (0.009)* ¹
Number of occupational safety and health trainees		1,500 trainees	1,627 trainees
Number of serious accidents* ²		0 accidents	0 accidents* ¹

*¹ Data from January to December 31, 2021

*² Accidental deaths occurring during work at Daifuku (labor accidents)

Occupational safety and health training

Shiga Works has a hands-on safety training facility. While hands-on learning about accidents has traditionally been difficult to provide, the facility offers a program that provides trainees with a simulated experience of danger, helping train staff members to have a high safety awareness and to take appropriate actions. The facility introduced a virtual reality system in 2018, which opened the way for a simulated experience of industrial accidents. The training is targeted not only at Daifuku employees but also at its partners' employees, aiming to raise the safety level of the entire Group.



Virtual experience of an accident in which personnel are caught in the roller of a machine

Achieve diversity and inclusion



2030 Goals Create an environment where a diversity of human resources can remain active

KPIs	Scope	FY2021 targets	FY2021 results
Number of female managers	Japan	19 people	20 people
Employment rate of people with disabilities		2.3%	2.54%*
Paternity leave acquisition rate		5.0%	8.7%

* As of June 1, 2021

Efforts for women's participation and advancement in the workplace

In December 2021, we revised upward the target of the number of female managers set in the plan of action pursuant to the Act on the Promotion of Women's Participation and Advancement in the Workplace. Looking ahead, we will step up our efforts to promote female managers. The same targets under the Sustainability Action Plan were also changed. Specifically, the target for fiscal 2022 was changed from 21 to 25, and the target for fiscal 2023 was changed from 22 to 30. We have also set a quota of specially referred women for the leader training aimed at developing prospective executives. We are thus creating an environment for nurturing female managers, aiming to help female employees be aware of the career path to managers and to provide them with opportunities to build their skills. That will help broaden the range of potential candidates for managerial posts.

Create a workplace environment that motivates employees



2030 Goals Achieve a workplace environment where employees experience comfort, health and prosperity

KPIs	Scope	FY2021 targets	FY2021 results
Paid leave acquisition rate	Japan	73%	73%
Maintaining high rate of stress check testing		96%	97%
Holding events to encourage mental and physical health		Continued events centered on main facilities	<ul style="list-style-type: none"> Enriched online events, such as physical exercise seminars and programs Held walking events at the Osaka Headquarters and Shiga Works

Health and Productivity Management

Daifuku established its Health and Productivity Management Declaration covering the entire Group in April 2018, placing the physical and mental health of employees as an important issue that underpins the sustainable growth of the Group. Under the declaration as a basic policy, we strive to develop a rewarding work environment where employees can work with vitality.

We are operating the Mental and Physical Health Promotion Committee, a Companywide organization encompassing corporate and industrial physicians and health nurses and labor unions, which was established in 2006. We draw up a medium-term action plan to work steadily towards the advancement of health management. Our major activities include the organization of seminars and events for solving health problems such as lifestyle-related diseases and mental health issues, and support for smoke-free lifestyles through a program for quitting smoking. To reduce the physical and mental burden on employees involved in childcare and nursing care, we are improving our programs and providing a range of assistance, such as health consultations with an industrial physician and a health nurse.



At the Shiga Works, we hold two walking events each month during the lunch break. Participants walk along the promenade on the Works' premises. A total of 7,667 people participated in the events in fiscal 2021.

Respect human dignity

Cultivate human resources



2030 Goals Provide opportunities for growth according to the individual's career ambitions

KPIs	Scope	FY2021 targets	FY2021 results
Strengthening education for managerial employees and candidates	Japan	Provide education according to the qualities of candidates up for promotion	<ul style="list-style-type: none"> Implemented training and aptitude tests on business management and labor management for those promoted to managerial positions in fiscal 2022 Offered promotion recommendation requirement courses for candidates for managerial positions in fiscal 2023 and beyond
Developing training using online resources and promoting autonomous learning		Establish on-demand library for training and education	<ul style="list-style-type: none"> Began using training videos with internal lecturers in a total of 16 rank-based training programs

Enhancing training system

We encourage our employees by providing self-motivated learning opportunities and a rank-based training system, as well as a global leadership training program for the next generation, including candidates for senior management of non-Japan Group companies. In fiscal 2021, we created a new style of training with an eye to the era after the pandemic. The training takes place in three steps. The first is preparatory learning using on-demand training materials (for the purpose of input). Next is online sessions for an exchange of opinions (for the purpose of output). And third is self-development learning after the online sessions (which serves as a follow-up).

We launched a preparatory e-learning program for business skills and knowledge. It is defined as a requirement for referrals for prospective managers. The training aims to systematically develop prospective managers and to encourage them to learn autonomously.

Strengthening human resources management to bolster global business

We are working to establish systems and mechanisms for constructing a staff management platform for the whole Group. Going forward, we will specify key positions in the Group and build a system for managing prospective successors to those in key positions and for systematically developing such personnel.

VOICE



Minami Nakagawa

Human Resources and General Affairs Dept.
Human Resources and General Affairs Division

Creating an environment that supports autonomous learning

My duties are related to the development of our staff members. That centers on planning and operation of internal training for young staff. While identifying the needs of employees and those of the times, I myself learn day by day. We value the stance of making good programs together with trainees. We are striving to create a system of training that allows individual trainees to learn actively and to link among them. We will employ a hybrid system that combines online and offline training. At the same time, we will be active in undertaking new initiatives.

Respect human rights



2030 Goals Respect human rights of all people involved in our business

KPIs	Scope	FY2021 targets	FY2021 results
Promotion of workplace understanding of human rights	Global	Carry out human rights training for Group employees	<ul style="list-style-type: none"> Provided three anti-harassment seminars to managers at Group companies in Japan
Carrying out due diligence for human rights		Formulate policies and carry out due diligence for human rights and ensure wide-spread human rights knowledge inside and outside the Company	<ul style="list-style-type: none"> Formulated and disclosed our human rights policy; then disseminated it across the Group through videos and internal newsletters

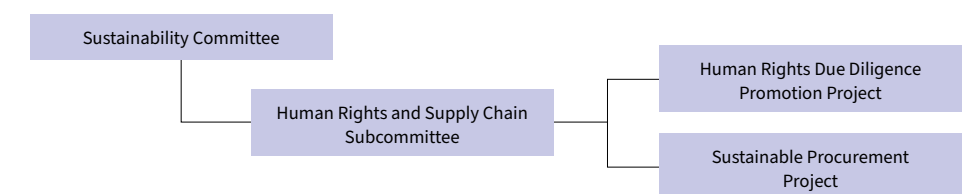
Promoting human rights due diligence

We aim to construct a human rights due diligence system at the Human Rights and Supply Chain Subcommittee under the Sustainability Committee. This subcommittee created the Daifuku Group Human Rights Policy in fiscal 2021 to make clear the Group's stance on human rights in conducting business activities. Developed in line with the United Nations Guiding Principles on Business and Human Rights, it applies to all officers and employees of the Group. It is hoped that our business partners will understand this policy and adopt it. We will emphasize our respect for human rights in collaboration with our partners.

From fiscal 2022, we will build a mechanism for identifying, analyzing and evaluating the negative impacts of our overall business activities, including those in the supply chain, on human rights and for redressing, mitigating and preventing any such impacts that are identified. We will constantly implement and refine it. If it becomes clear that these actions produce or amplify negative impacts on human rights, we will endeavor to take appropriate and effective remedial measures.

We understand that respect for human rights is one of our most significant duties for continuous growth. We will fulfill this duty by minimizing the possible adverse impacts of business activities on human rights.

FY2022 promotion system



Human Rights and Supply Chain Subcommittee

Members	Business units (management and procurement), Safety and Health Management Division, Human Resources and General Affairs Department, Governance Promotion Department, Business Administration Department, Sustainability Promotion Department
Main agenda	<ul style="list-style-type: none"> Building a human rights due diligence system Developing guidelines for sustainable procurement guidelines and constructing a mechanism for sustainable procurement, and other

For details, see our website:
www.daifuku.com/sustainability/society/human-rights

For details, see our website:
www.daifuku.com/sustainability/society/supply-chain



Contribute to the environment through our business

The most profound risk to our business continuity comes from global environmental issues, such as climate change and threats to biodiversity, while, at the same time, we recognize that solving such issues also presents business opportunities for us. In 2021, the Daifuku Group established Daifuku Environmental Vision 2050, which sets quantitative targets to reach by 2030 in the two crucial issue areas of climate change and energy, and resource recycling. We will strive to achieve our vision across the Group under the auspices of the top management.

Group's vision for 2050



Crucial issue areas for 2030

Accelerating climate change and energy responses

We will strive to reduce CO₂ emissions in our value chain by reducing the energy use of our products operated at customer sites and by working together with our suppliers. We will work on CO₂ emissions reductions compliant with the Paris Agreement by promoting energy conservation and introducing renewable energy sources throughout the Group.

Building a foundation to promote resource recycling

To promote resource recycling throughout the product life cycle, we will enhance the recyclability rate of our products. We will build a resource-recycling framework at all our production sites.

FY2030 targets

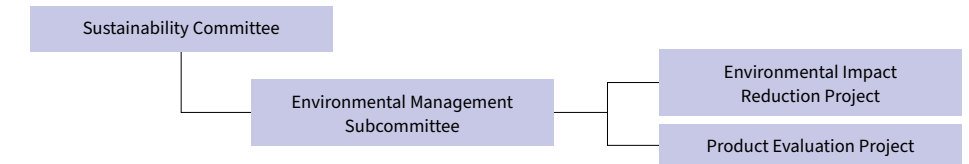
Crucial issue areas	Targets
Climate change and energy	<ul style="list-style-type: none"> 70% or higher sales ratio of projects that include environmentally friendly products^{*1} Overall avoided CO₂ emissions^{*2} of 300,000 t-CO₂ or more 25% or more reduction in total CO₂ emissions by Daifuku (from fiscal 2018 levels) 50% or more corporate participation in supply chain CO₂ reduction program^{*3}
Resource recycling	<ul style="list-style-type: none"> 90% or higher recyclability rate for new products 99% or higher recycling rate of waste

^{*1} Projects that have contributed to customers in terms of environmental consideration through certified Daifuku Eco-Products, etc.
^{*2} CO₂ emissions produced from our products/services provided to our customers are subtracted from the CO₂ emissions produced from our products/services in fiscal 2011—the base year for environmental performance.
^{*3} Daifuku's own framework on efforts (sharing of goals and supporting measures to reduce emissions, etc.) to reduce CO₂ emissions at suppliers

Promotion framework

We have established a subcommittee on environmental management under the Sustainability Committee, which is chaired by the CEO and composed of heads of global business units. This subcommittee holds discussions mainly on contributing to the environment through business, one of the themes in the Sustainability Action Plan. We have set individual targets for the material issues of “keeping business operations environmentally friendly” and “expanding environmentally friendly products and services” to check how activities are conducted and what progress they made. In fiscal 2022, we launched two projects. One is a project for reducing our environmental impact. It studies energy and resource conservation in business activities and the introduction of renewable energy. The other is the product evaluation project. It discusses the certification and advertising of Daifuku Eco-Products as well as revisions to the certification criteria.

FY2022 promotion system



Environmental Management Subcommittee

Members	Business units (manufacturing, sales, and design), Human Resources and General Affairs Department, Assets Administration Department, Sustainability Promotion Department
Main agenda	<ul style="list-style-type: none"> Adoption of renewable energy Implementation of energy and resource saving Product sustainability assessment, and more

Sustainability Action Plan

Keep business operations environmentally friendly



2030 Goals Enhance measures to reduce environmental footprint, such as in climate change and resource depletion

KPIs	Scope	FY2021 targets	FY2021 results
Daifuku's total CO ₂ emissions reduction rate (over fiscal 2018)	Global	2.5% reduction	13.8% reduction
Participation rate in CO ₂ emissions reduction programs* throughout the supply chain	Japan	32%	36%
Recycling rate of waste	Global	Survey global sites; establish goals	99%

* Daifuku's own framework on efforts (sharing of goals and supporting measures to reduce emissions, etc.) to reduce CO₂ emissions at suppliers

Expand environmentally friendly products and services



2030 Goals Maximize value for customers through being environmentally friendly

KPIs	Scope	FY2021 targets	FY2021 results
Avoided CO ₂ emissions* ¹	Global	30,000 t-CO ₂	69,694 t-CO ₂
Sales ratio of projects that include environmentally friendly products* ²		43%	63%
Recyclability rate for new products		90%	86%

*1 CO₂ emissions produced from our products/services provided to our customers are subtracted from the CO₂ emissions produced from our products/services in fiscal 2011—the base year for environmental performance.

*2 Projects that have contributed to customers in terms of environmental consideration through certified Daifuku Eco-Products, etc.

Climate change and energy initiatives

Material handling systems provided by the Group are in operation at logistics facilities and factories of customers around the world. CO₂ emissions from energy consumption for product operation account for the largest portion of our CO₂ emissions. In light of that, we take steps to conserve energy based on product design with environmental considerations and the optimization of overall system operation.

With respect to business management, we will continue moving forward with energy conservation measures at production sites worldwide, and will work to introduce renewable energy. The Group is characterized by a high percentage of non-Japan sales. Energy consumption tends to be larger at non-Japan production sites than at facilities in Japan. In fiscal 2020, we embarked on surveys for procuring renewable energy at facilities with high power consumption. We will successively introduce renewable energy procurement to those facilities prepared for it. As of the end of fiscal 2021, 9.9% of our total power consumption was covered by renewable energy.

In addition, many of our production processes involve assembly. CO₂ emissions from suppliers engaging in parts production in the upstream part of our supply chain tend to account for a relatively high percentage of total emissions. We have launched a program for cutting CO₂ in the supply chain to ask our principal suppliers responsible for the top 80% of our procurement amount to set their CO₂ emissions reduction targets. We are thus making efforts to collaborate with suppliers. In fiscal 2021, the supply chain CO₂ emissions reduction program participation rate was 36%, achieving the single-year target.

Status and schedule of renewable energy procurement

FY2021	<ul style="list-style-type: none"> ▶ Changshu plant of Daifuku (China) Automation Co., Ltd. introduced a rooftop photovoltaic system. ▶ Daifuku Logan Ltd. completed green power switchover at Hull operations.
FY2022 (planned)	<ul style="list-style-type: none"> ▶ Daifuku (Thailand) Limited will purchase a renewable energy certificate for its Pinthong and Chonburi plants. ▶ Contec Americas Inc.'s Melbourne office will purchase a renewable energy certificate. ▶ Daifuku will buy back the environmental value of electricity generated by the Daifuku Mega Solar at the Shiga Works.

Resource recycling initiatives

The Group offers a large-scale material handling system consisting of many parts and materials. Daifuku Environmental Vision 2050 aims to circulate resources not only when waste is generated from business activities but also when equipment delivered to customers is removed. From that point of view, we are reviewing the product materials and improving the ease of disassembly from the design stage. In addition, we have positioned the stable operation of the system for a long period of time and delaying the timing of disposal as an important initiative, and will enhance after-sales services such as maintenance.

Daifuku Eco-Products Certification Program

Since 2012, Daifuku has been operating an in-house program to rate and certify the energy and environmental design of its own products. Under the program, we rate all products under the same standards across the Daifuku Group, in terms of energy savings, recyclable, lightweight, long life, resource savings, water conservation, low noise, water pollution prevention, and harmful substance reduction. Also, all products are measured with results of a Life Cycle Assessment. As of May 2022, 77 products have met the standards and been certified as Daifuku Eco-Products.

In fiscal 2022, the Environmental Management Subcommittee under the Sustainability Committee launched a product evaluation project to review this program. It is studying product evaluation criteria with a broader perspective including not only environmental considerations but also the products' contribution to customers and society.

VOICE



Ayumi Ishihara
Development Department
Intralogistics Division

Meeting social needs with an extensive perspective

I work for a unit responsible for product development for intralogistics systems for manufacturers and distributors. I am involved in the mechanical design of a certified Daifuku Eco-Product. We try to understand what is needed at customers' shop floors, so that we can respond to those needs. In addition, we are working to reduce product weight to lower CO₂ emissions and increase productivity, while reducing waste by refining the design. Going forward, I intend to enhance my skills and knowledge with a focus on having wide-ranging viewpoints and perspectives in a bid to better satisfy the needs of customers and society.

Disclosure of Climate Change Information

At Daifuku, we regard intensifying global environmental issues as one of the important factors in the social environment surrounding the Daifuku Group. Since fiscal 2019, we have been carrying out environmental management aimed at decarbonizing society and achieving the SDGs. As part of these efforts, we declared our support for the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). In accordance with the framework of the TCFD recommendations, we have identified risks and opportunities that climate change creates for our businesses globally.

Governance

We have set up the Sustainability Committee (chaired by the CEO), which submits, reports, and provides information about deliberation items related to sustainable management, including those related to climate change. The Committee consists of the heads of each global business unit and related officers. The Board of Directors receives reports from the Sustainability Committee and passes resolutions on the necessary measures.

Processes of risk identification and assessment

We set up the administrative office of the Sustainability Committee and a working group consisting of external experts and relevant units. In each scenario, we identified events that may occur in the future and their impact on the value chain. For each impact that has been identified, we clarified the current initiatives as Daifuku's preparations and future prospects.

As a result of a scenario analysis, while business cost will increase due to climate change and the measures taken to mitigate it, we expect growth in demand for our products and services that exceeds the above negative impact.

Specifically, we analyzed different scenarios for rising temperature during the 21st century:

- 1) When the temperature rise reaches 4 degrees Celsius (the world continues to emit greenhouse gases without change), and
- 2) When the temperature rise is kept to less than 1.5 degrees Celsius (greenhouse gas emission regulations are rapidly tightened).

As a result of an analysis based on the two scenarios, scenario 1) is expected to produce severe typhoons and floods, and scenario 2) is expected to result in increased business costs due to carbon tax, etc. In both scenarios, it has become clear that the increase in demand for our products and services is likely to exceed costs, given the promotion of automation investment and the growing need for environmentally friendly products.

Process for managing climate-related risks

For risks and opportunities analyzed based on a transition risk scenario and a physical risk scenario in climate change, in the aspects of both business operation and products, we will specify the process of mitigating, transferring, accepting, and managing climate-related risks through the Sustainability Committee.

Overview of scenario analysis on climate change risks

Rise in temperature in the 21st century	Envisioned risk	Envisioned opportunity
Greenhouse gases are emitted around the world without significant change 4 degrees Celsius	<ul style="list-style-type: none"> Delays in incoming and outgoing products, damage to production equipment, and shutdowns of our factories due to increased incidence of typhoons, heavy rains, flooding, etc. Risk of employees experiencing heatstroke in factories and other facilities associated with high temperatures 	<p>Increase in demand for products and services</p> <ul style="list-style-type: none"> Expansion of cold chain and e-commerce markets Growing demand for labor savings Increase in demand from customers for contributions to reducing CO₂ emissions
Rapidly tightened regulations related to greenhouse gas emissions Less than 1.5 degrees Celsius	<ul style="list-style-type: none"> Increase in procurement and operating costs due to carbon tax, etc. 	

Transition risk measures	While CO ₂ emissions from in-house production activities are about 1% of the total, CO ₂ emissions from customers' energy use is overwhelmingly high at about 76%, and customers need to reduce the environmental load in logistics and production. We will focus on the development and sales of environmentally friendly products (77 products as of May 2022), responding to further increases in these customer needs for mitigating carbon dioxide. In addition, to promote decarbonization in business operations, we are conducting surveys on the potential for introducing renewable energy at major global production sites and formulating plans for introducing the renewable energy.
Physical risk measures	In the risk assessment conducted by the entire Group, we have identified natural disasters including typhoons and floods as severe risks that have a significant impact. To improve the effectiveness of the business continuity plan including the supply chain, we have analyzed the degree of business impact and reviewed the system table of each business unit. We have also made efforts to mitigate the risk of suspended supply by diversifying production sites, purchasing key components from two or more suppliers, and taking other measures. Moreover, at production, installation, and service sites, we are striving to continuously improve the work environment to protect against higher temperatures and ensure thorough safety and health management.

Risk management

We have built a Groupwide risk management framework based on our risk management rules. We position major natural disasters, including climate change, as a significant risk, and the Sustainability Committee manages that risk in a centralized manner. Concerning climate change risks, we apply the views of external experts and report them to the Board of Directors as necessary.

Metrics and targets

The Group has formulated Daifuku Environmental Vision 2050, which envisions the year 2050. With the Vision, we have set a goal to create material handling systems with zero environmental impact. With "climate change and energy" as one of our crucial issue areas, we aim to reduce the total amount of CO₂ emissions from our business activities by 25% or more by 2030 compared to fiscal 2018, by actively promoting energy conservation and the introduction of renewable energy globally [▶ Page 76](#).

Membership status in climate-related organizations

Daifuku is a member of the following organizations aiming to solve climate change issues and is involved in information sharing and policy proposals:

- ▶ Japan Climate Initiative
- ▶ Japan Climate Leaders' Partnership (supporting member)
- ▶ TCFD Consortium

Initiatives for disclosure of climate change information

Daifuku has participated in the CDP* climate change questionnaire since fiscal 2017 to disclose its measures for climate change issues.

* Headquartered in London, CDP is an international non-profit organization working in environmental areas such as climate change, water, and forest resources. On behalf of more than 680 financial institutions with total assets under management of US\$130 trillion, it conducts surveys requesting the disclosure of information related to environmental strategies and greenhouse gas emissions, and publishes the results of its evaluation based on the responses from companies.

	FY2021
CDP Climate Change Questionnaire	A-
CDP Supplier Engagement Rating	A

SASB Standards Index

Sustainability disclosure topics & accounting metrics

Topic	Code	Category	Accounting metrics	Daifuku's website
Energy management	RT-IG-130a.1	Quantitative	1 Total energy consumed	Although we do not use a measurement method that matches the metrics recommended by SASB, we disclose energy consumed. ESG Data > E: Environmental
			2 Percentage grid electricity	Although we do not use a measurement method that matches the metrics recommended by SASB, we disclose power consumed. ESG Data > E: Environmental
			3 Percentage renewable	Although we do not use a measurement method that matches the metrics recommended by SASB, we are actively introducing renewable energy under Daifuku Environmental Vision 2050. The percentage of electricity derived from renewable energy sources to total electricity is 9.9% in fiscal 2021. ESG Data > E: Environmental
Employee health & safety	RT-IG-320a.1	Quantitative	1 Total recordable incident rate (TRIR)	Although we do not use a measurement method that matches the metrics recommended by SASB, we disclose frequency rate as alternative data. ESG Data > S: Social
			2 Fatality rate	ESG Data > S: Social
			3 Near miss frequency rate (NMFR)	Although we do not use a measurement method that matches the metrics recommended by SASB, we disclose the following information as alternative data. Occupational Safety and Health
Fuel economy & emissions in use-phase	RT-IG-410a.1	Quantitative	Sales-weighted fleet fuel efficiency for medium- and heavy-duty vehicles	We have no target product, but we disclose the overall avoided CO ₂ emissions through our products and services. Environmentally Friendly Products and Services
	RT-IG-410a.2	Quantitative	Sales-weighted fuel efficiency for non-road equipment	
	RT-IG-410a.3	Quantitative	Sales-weighted fuel efficiency for stationary generators	
	RT-IG-410a.4	Quantitative	Sales-weighted emissions of nitrogen oxides (NOx) and particulate matter (PM)	
Materials sourcing	RT-IG-440a.1	Discussion and analysis	Description of the management of risks associated with the use of critical materials	Currently, we are grasping and organizing the existence of risks in the use of scarce resources.
Remanufacturing design & services	RT-IG-440b.1	Quantitative	Revenue from remanufactured products and remanufacturing services	Although we do not use a measurement method that matches the metrics recommended by SASB, we identify environmentally friendly products and manage their sales based on the Daifuku Eco-Products Certification Program. ESG Data > E: Environmental

Activity metrics

Activity metrics	Code	Category	Topic	Daifuku's website
Metrics that quantify the scale of a company's business	RT-IG-000.A	Quantitative	Number of units produced by product category	We do not disclose due to the wide range of products and their characteristics.
	RT-IG-000.B	Quantitative	Number of employees	ESG Data > S: Social



Our sustainability website provides detailed information on Daifuku's sustainability promotion policies, systems, achievements, and data. The site also provides our sustainability reports and the GRI Standard Comparison Table.

- [Sustainability Report](http://www.daifuku.com/sustainability/report)
- [GRI Standards Index](http://www.daifuku.com/sustainability/gri)

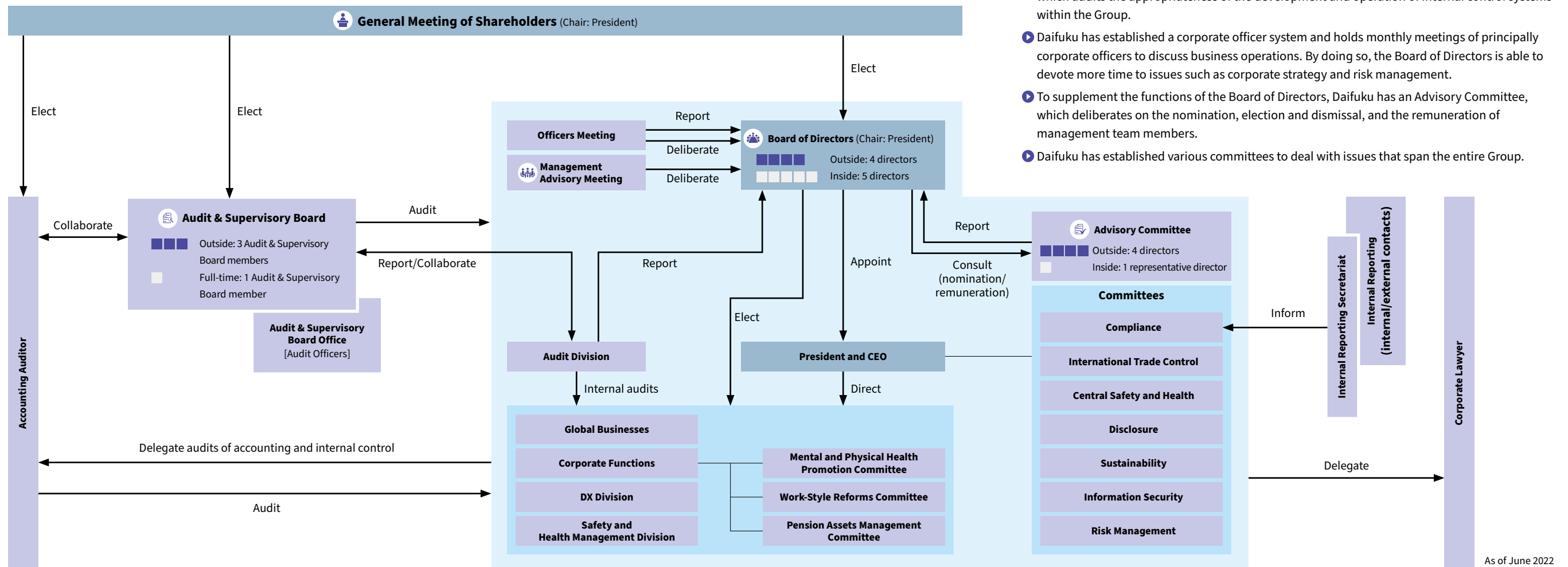
Corporate Governance

Basic stance

As a company with an Audit & Supervisory Board, the Daifuku Group is flexibly promoting the introduction and expansion of systems that enhance management transparency, monitoring and supervision functions. The Company strives to enhance its effectiveness by continuously implementing the plan-do-check-act (PDCA) cycle, establishing the Daifuku Group's Basic Policy for Corporate Governance based on Japan's Corporate Governance Code.

Corporate governance framework

- Daifuku works to enhance its corporate governance framework by developing a Board of Directors that includes multiple independent outside directors and is designed to take diversity into consideration, and an Audit & Supervisory Board that includes multiple members elected from outside the Company.
- Audit & Supervisory Board members, together with the Audit & Supervisory Board Office, further strengthen the cooperation between the Audit Division and the accounting auditor to deepen and streamline audit work. An audit officer system has been established for the purpose of strengthening audit-related functions. Audit officers are equivalent to corporate officers and attend meetings of the Board of Directors.
- Under the direct control of the Board of Directors, Daifuku has established the Audit Division, which audits the appropriateness of the development and operation of internal control systems within the Group.
- Daifuku has established a corporate officer system and holds monthly meetings of principally corporate officers to discuss business operations. By doing so, the Board of Directors is able to devote more time to issues such as corporate strategy and risk management.
- To supplement the functions of the Board of Directors, Daifuku has an Advisory Committee, which deliberates on the nomination, election and dismissal, and the remuneration of management team members.
- Daifuku has established various committees to deal with issues that span the entire Group.



As of June 2022

Board of Directors' meeting

18 times (FY2021)

The Board of Directors makes decisions on important matters stipulated in the Rules of the Board of Directors, such as the determination of management policies, business plans, and the corporate governance system. The Board of Directors' meetings are attended by all directors and all Audit & Supervisory Board members, with managing officers and audit officers joining as observers.

Management Advisory Meeting

3 times (FY2021)

The Management Advisory Meeting is held to confer important management matters. With all directors and Audit & Supervisory Board members in attendance, this meeting also seeks the opinions of related corporate officers, audit officers, executives, and external specialists on an as-needed basis. Convened by the president as he sees fit, the Management Advisory Meeting meets on a timely basis as appropriate.

Advisory Committee

5 times (FY2021)

The Advisory Committee has been established to strengthen the independence, objectivity, and accountability of the functions of the Board of Directors regarding the nomination, dismissal, and remuneration of directors and corporate officers. The Committee consists of three or more members, including one or more representative directors and one or more outside directors, and meets at least three times a year. The Committee is chaired by an outside director.

Audit & Supervisory Board meeting

8 times (FY2021)

The Audit & Supervisory Board resolves on audit plans, election/dismissal, non-reappointment of accounting auditors, consent to accounting auditors' remuneration, a draft of audit report, etc. In addition, the full-time Audit & Supervisory Board member reports on the status of audit implementation, audit results, assessment of appropriateness of audit by the accounting auditor, compliance-related matters, etc.

Officers' remuneration

Daifuku stipulates the details of officers' remuneration in related internal rules. The Company also formulates a policy on determination of annual remuneration for individual officers, such as adopting a resolution at a Board of Directors' meeting after consideration and reporting by the Advisory Committee.

Summary of decision policy

- The annual amount of remuneration for directors is set to be 700 million yen or less approved at the ordinary General Meeting of Shareholders held in June 2006. The basic policy is to pay remuneration for directors in accordance with related internal rules stipulated by resolution of the Board of Directors so that the level of remuneration is appropriate for the roles and duties of directors.
- The remuneration for executive directors consists of basic remuneration as fixed remuneration, a bonus as short-term performance-linked remuneration, and medium- to long-term performance-linked equity remuneration.
- The ratio of each remuneration is not fixed because the link between the Company's results and stock value is reflected in remuneration. The Company determines the ratio, taking into consideration the remuneration levels at other companies and reports from the Advisory Committee.
- For outside directors who have a supervisory function, only the basic remuneration shall be paid.
- Basic remuneration is determined based on fixed remuneration for executive remuneration by position. The remuneration level is determined based on a comprehensive consideration of qualifications, position, and company performance, while also taking into account levels at other comparable companies.
- Activities of the Board of Directors and committees, etc., in the process of determination of remuneration amount for officers

The remuneration for directors shall be reviewed and reported by the Advisory Committee, which consists of outside directors and representative directors, and the total amount of basic remuneration and bonuses shall be resolved annually by the Board of Directors. The president and CEO shall be delegated by the Board of Directors to determine the details on the amount of remuneration for individual directors based on relevant internal rules.

The Advisory Committee consists of three or more members, including one or more representative directors and one or more outside directors. The chair is an outside director. In fiscal 2021, the Committee consisted of all four outside directors and one representative director.

Performance-based remuneration

Bonuses, which serve as short-term performance-linked remuneration for directors, are funded by a certain proportion of consolidated net income for each fiscal year, allocated as a basic component that corresponds to an officer's qualifications and position and an evaluation component that reflect performance, and distributed once a year at a fixed time. When calculating bonuses, we determine the "basic component factor" based on qualification and job title, and the "performance-linked evaluation component factor" based on quantitative (profit growth) and qualitative aspects. In terms of the method of calculations, the basic component constitutes about 80% of the allocation and the performance-linked evaluation component constitutes about 20%. The performance-linked evaluation component is calculated based on the evaluation of individual performance.

Non-monetary remuneration

Daifuku adopts the Board Benefit Trust (BBT) system as a non-monetary remuneration. The purpose of introducing this system is to further clarify the link between officers' remuneration and the Company's results and stock value and for officers to share with shareholders the benefit of rising stock prices and the risk of falling stock prices together with shareholders, with an aim to motivate them help improve results and increase corporate value over the medium to long term. Under this system, standard points are set for each position. According to the degree of achievement of the business year target and the three- or four-year business plan targets, four levels of coefficients are assigned, and points are granted accordingly. The Company's stocks and money are paid according to accumulated points at the time of retirement. The degree of achievement in a fiscal year is calculated based on the degree of achievement of initial net income amount and margin plans in the fiscal year. The degree of achievement in a three- or four-year business plan is calculated based on the latest management targets (including net sales, operating income, and ROE targets) announced by the end of the previous fiscal year.

Performance-linked remuneration and other remuneration

Name	Performance-linked remuneration		Other
	Bonus	Non-monetary remuneration (BBT)	Basic remuneration
Target recipients	Inside directors of the Board, full-time Audit & Supervisory Board members	Inside directors	All officers
Index	The remuneration is funded by a certain proportion of net income and determined based on the results of quantitative and qualitative assessments of the area for which the recipient is responsible.	For each fiscal year: Achievement of performance targets (net income amount and margin) Achievement of a three-year business plan: Targets for net sales, operating income, and ROE in Value Transformation 2023 (April 2021–March 2024)	—

* FY2021

• Net income: Fiscal 2021 initial target of ¥34 billion, forecast value of ¥35.5 billion announced February 2022 (achievement ratio: 104.4%)

• Net income ratio: Fiscal 2021 initial target of 6.8%, forecast value of 7.0% announced February 2022 (achievement ratio: 103.4%)

Delegation of authority to determine remuneration for individual directors

The Board of Directors has the authority to decide on policies on officers' remuneration amount, etc., and the method for calculating the amount. President and CEO Hiroshi Geshiro has been delegated to determine the amount of remuneration for individual directors for fiscal 2021 under the internal rules. The delegated authority includes determining the monthly allocation of basic remuneration for each director and the allocation of bonus based on the evaluation of performance for each director. The authority has been delegated to the president and CEO because the president and CEO is in the most suitable position for evaluating each director's roles and responsibilities while maintaining an overview of results for the entire company. To ensure that the delegated authority is exercised properly, the president and CEO determines the amount of remuneration for each director in line with the opinions of the Advisory Committee.

To ensure that the president and CEO exercises the authority properly as outlined above, the Board of Directors has respected the Advisory Committee's report on remuneration for each director, which is the result of the Committee's deliberation in line with the policy, and has approved the remuneration.

Remuneration for Board members

Total amount of remuneration by position, type of remuneration and number of target officers of the reporting company (FY2021)

Category	Total remuneration (million yen)	Total remuneration by type (million yen)			Number of target officers
		Basic remuneration	Performance-linked remuneration		
			Bonus	Non-monetary remuneration (BBT)	
Directors (excluding outside directors)	455	189	223	42	5
Audit & Supervisory Board members (excluding outside members)	47	25	22	—	1
Outside officers	90	90	—	—	7

Disclosure of individual directors' remuneration over 100 million yen: Hiroshi Geshiro (President and CEO, Representative Director):

Total remuneration of ¥160 million (basic remuneration: ¥55 million, bonus: ¥88 million, and BBT: ¥16 million)

Enhancing corporate governance structure

Evaluation of the Board of Directors' effectiveness

For the purpose of enhancing corporate governance, we have since fiscal 2015 been inspecting whether or not the whole of the Board of Directors functions properly in terms of composition and operation, aiming to identify problems so that we can take measures to remedy them and to enhance the strengths of the Board. We contract with an external evaluation body to carry out analysis and evaluation in order to ensure their independence and objectivity.

Overview of evaluation of the Board of Directors' effectiveness for fiscal 2021

Period: January to March 2022

Subjects: All nine directors and all four Audit & Supervisory Board members

Method: A questionnaire to all subjects and interviews with the representative director and four outside directors

Survey items: 1 Composition of Board of Directors 2 Operation of the Board of Directors 3 Discussions at the Board of Directors 4 The Board of Directors' monitoring function 5 Training 6 Dialogs with shareholders (investors) 7 Subjects' own actions 8 Operation of committees (47 questions in total, including seven requiring written answers)

1 General evaluation

In most of the survey items, evaluation results were higher than the average of results obtained by an external body for all companies. The external body commented that the Board of Directors worked effectively on the whole. An outside officer said that offices and inside officers had a will to make improvements with a constant awareness of issues and that they felt that improvements happened.

2 Main evaluation results

1. Discussions at the Board of Directors were rated by many as free, active and constructive. High marks were given particularly to the fact that Board members held repeated discussions on standards for matters to be referred to the Board of Directors requested by some officers in the previous fiscal year to achieve improvements.
2. Some commented that the current system that allowed outside officers to attend and observe different internal meetings other than meetings of the Board of Directors helped enrich discussions at the Board of Directors.
3. In interviews on the formulation and implementation of the program for successors to the CEO and other posts, some commented that the successor program was reviewed and discussed through development of potential successors and personnel assignment keeping in mind succession.

3 Recognition of problems and future actions

1. Opportunities for training requisite to officers remain part of the agenda. For fiscal 2022, we will be holding intensive discussions on this matter.
2. Insufficiency in sharing of discussions at the Advisory Committee, consisting of the representative director and four outside directors, with the Board of Directors was recognized as a new issue. We will take actions to remedy it.
3. The current composition of the Board of Directors is not problematic. However, several respondents called for enhanced diversity, namely women and non-Japanese nationals, as a point to be address in the future. In response to that, we will continue consideration of this issue from a medium- and long-term perspective.

Skills of the Board of Directors

Name	Expertise, experience							Diversity			
	Corporate management	Technology	Finance/Accounting	Legal affairs, risk management	Sales/Marketing	Global	Environment, society, governance	Independence	Gender	Age	Major career
Hiroshi Geshiro	✓			✓	✓	✓	✓		Male	64	The Group
Shuichi Honda	✓		✓	✓		✓	✓		Male	65	The Group, bank
Seiji Sato	✓				✓	✓			Male	62	The Group
Toshiaki Hayashi	✓	✓				✓			Male	63	The Group
Hiroshi Nobuta	✓	✓				✓			Male	62	The Group
Yoshiaki Ozawa			✓			✓	✓	×	Male	68	Accounting firm, university, outside member of the Audit & Supervisory Board and Substitute Director (Audit & Supervisory Committee Member) of enterprises
Mineo Sakai	✓		✓			✓	✓	×	Male	71	Trading company, IT company
Kaku Kato	✓			✓		✓	✓	×	Male	67	Trading company, energy-related company, university
Keiko Kaneko				✓		✓	✓	×	Female	54	Trading company, university, law firm, statutory auditor and external statutory auditor of enterprises

Notes: 1 Up to five skills of individuals are marked with "✓".
 2 The above list does not represent all of the knowledge, experience, and abilities of individuals.
 3 The age is at the nearest birthday as of the conclusion of the General Meeting of Shareholders.

Cross-shareholding

The policy on shareholding is defined in the Disclosure Based on the Principles of Japan's Corporate Governance Code as follows:

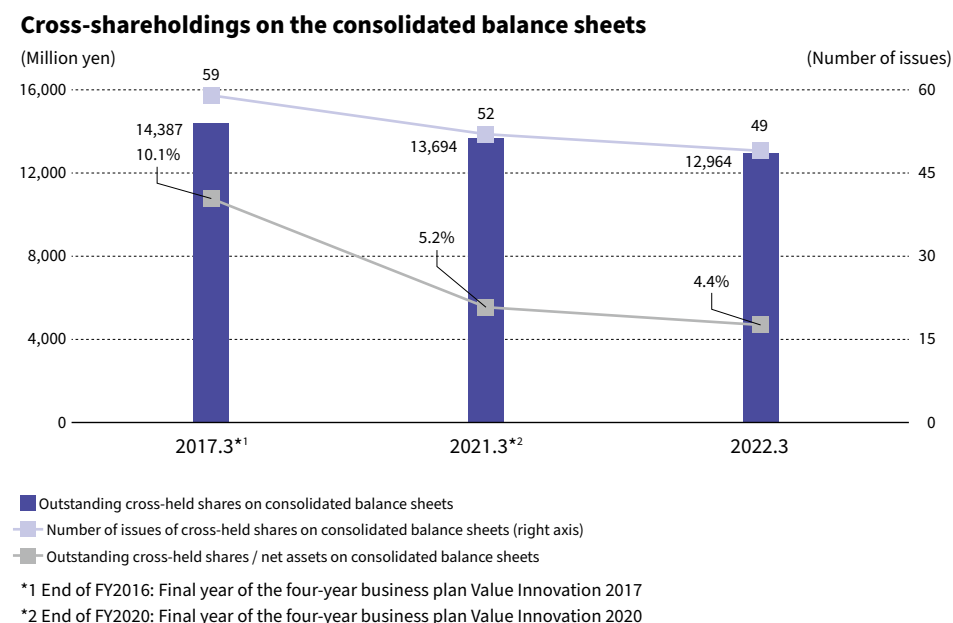
"Our basic policy is to limit shareholdings, including shares held as cross-shareholdings, to the minimum necessary and to reduce them, and the Board of Directors confirms the status of individual holdings every year. In principle, we will no longer hold new shares for strategic purposes.

Daifuku has established a firm relationship of trust with its customers through after-sales services as well as the delivery of products. Circumstances including these trade relations will also be taken into consideration when the economic rationale of cross-shareholdings, such as market capitalization, book value, transaction amounts, dividends, ROE, and risk of shareholdings, is examined. Shares, which the Board of Directors regards as having no significance, will be sold on a timely basis.

With respect to the voting rights attached to cross-shareholdings, we will make decisions individually with an emphasis on improving the corporate value of the cross-shareholding partners over the medium to long term. At the time of the assessment, special attention will be paid to whether the cross-shareholding partner has been tarnished by scandals or has committed an antisocial act. If the cross-shareholding partner has been involved in such circumstances, its managerial approach to improvement shall be scrutinized. Audit reports concerning that partner shall also be scrutinized. When a cross-shareholder indicates its intention to sell the Company's shares, Daifuku shall not hinder the sale of the cross-held shares."

In fiscal 2021, the Company reduced the holding of four issues of shares, including three issues of shares sold entirely. With respect to the shares held as of the end of fiscal 2021, the Board of Directors discussed "examination of whether to continue to hold shares as cross-shareholdings, and investigation based on the standard of exercising voting rights" and approved the holding of the shares at its meeting held on April 26, 2022. In addition, the Company will decide to sell some issues of shares flexibly, keeping a close watch on the prices of the shares. The shares held by the Company are steadily being reduced as shown in the chart [▶ Page 90](#).

Cross-shareholdings



Listed subsidiary

The Company has held shares of Contec Co., Ltd. as a listed subsidiary, but conducted a tender offer. As a result, Contec Co., Ltd. was delisted on April 28, 2022. The Company currently has no listed subsidiary.

With the growing focus on structural conflict-of-interest risks between a listed parent and its subsidiaries and to strengthen countermeasures against them, the Company has been examining the optimal capital and alliance relationships with Contec from the perspective of its business portfolio management and corporate governance. As a result, the Company has come to realize that it is essential to better facilitate mutual utilization of Contec and the Company's management resources, etc., and to promptly make decisions as a united Group. Accordingly, the Company has decided to make Contec a wholly owned subsidiary of the Company.

Looking forward, along with the acceleration of DX (digital transformation), Contec products are expected to play an increasingly active role. Contec will strive to achieve further growth by leveraging its group strengths while pursuing innovation and value creation. As a member of the Daifuku Group, Contec aims to maximize comprehensive collaboration effects across the Group.

Risk management

Risk management framework

Daifuku established a Risk Management Committee in April 2022 for the purpose of managing significant risks that affect the achievement of the Group's management goals in a cross-organizational manner. The Sustainability Committee has been responsible for risk management. However, risks surrounding business and management environment are rapidly changing and uncertainty in business is growing. In response to the situation, the Group has established the independent committee that integrates Groupwide risk management activities to build a stronger management system that supports swift decision-making and strong risk-taking. The Risk Management Committee is chaired by the CEO, and composed of global business heads, division managers, and responsible persons of the Safety and Health Management Division, Corporate Functions unit and other units. The Committee holds several general meetings annually, and reports significant risk management issues to the Board of Directors as appropriate.

Management systems for normal time and for emergencies

The Company has established the Risk Management Committee to separately operate the system for normal time and that for emergencies. The Committee promotes risk management actions in normal time, and controls risks before they become apparent. On the other hand, the Company has developed a business continuity plan (BCP) promotion system to address a crisis in emergencies after a risk becomes apparent. The BCP promotion system works together with the Risk Management Committee and also makes preparations for emergencies in normal time. When faced with a crisis such as a large-scale disaster, we will quickly establish a system and take an initial response to prevent secondary disasters, giving top priority to human life.

Prerequisites for risk analysis

- The Group considers the following preconditions should be analyzed for risk analysis:
- ▶ Our business is significantly affected by the trend in capital investment of a customer in a certain industry.
 - ▶ Our business generally involves long-term plant installation.
 - ▶ The Group operates globally, and nearly 70% of its net sales are from outside of Japan.
 - ▶ The results and scale of the Group are rapidly growing and are expected to continue growing, and sustainable growth is expected in the future.
 - ▶ Logistics systems are recognized as an important social infrastructure and attracting growing attention in society.

Risk assessment

The Group regularly conducts a risk assessment in accordance with the Risk Management Rules. Crucial risk factors that significantly affect the business activities of the Group are extracted, and those factors are mapped with two assessment axes of frequency and consequence to grasp and manage risks.

The assessment covers all business units and subsidiaries inside and outside of Japan. In accordance with the results of the assessment, an external agency adjusts the measures through the survey in the Group and with their expert knowledge. The results in 2021 had a higher consequence in risks associated with changes in the business environment compared with the results of the 2019 assessment. This assessment reflected the COVID-19 pandemic, US-China trade friction, the global semiconductor shortage and other factors.

Significant risks

According to the results of the risk assessment and other data, the management has recognized that the risk factors described below may have a material impact on the financial position, operating results and cash flows of consolidated companies: Risks projected in normal business operation are described in 1 to 6. Factors described in “7 Risks from the COVID-19 pandemic” are of higher priority under the current situation, and those in “8 Risks associated with climate change” should be disclosed in accordance with international frameworks. For item 8, see Page 80.

We are implementing countermeasures against each risk, however, earnings forecasts may have more impact than expected.

Summary of major risks

1 Risks related to changes in business environment	Impact	<ul style="list-style-type: none"> Decrease in capital investment due to economic fluctuations in the electronics sector, mainly semiconductor and flat-panel displays Supply shortage of semiconductors and other parts, soaring energy and raw material prices, disrupted logistics networks and rising labor costs Economic impacts of rising energy and food prices and supply chain disruption on consumption due to impact of Russia’s invasion of Ukraine
	Measures	<ul style="list-style-type: none"> Paying close attention to trends in the electronics sector to flexibly reflect them in our business plans Improving the accuracy of project management, including budgets and installation progress Focusing on and minimizing the impact on business activities related to Russia and Ukraine
2 Risks related to compliance	Impact	<ul style="list-style-type: none"> A significant increase in management targets due to rapid growth of the Group, emergence of risks due to stricter legal systems, etc.
	Measures	<ul style="list-style-type: none"> Outside directors’ participation in the Compliance Committee Internal audits conducted by the Audit Division that is independent from the business lines Review of the whistleblowing system Having established the Legal and Compliance Division and developed regulations to prevent corruption, breaches of competition laws, etc. Having established the Audit & Supervisory Board Office to assist the duties of Audit & Supervisory Board members and the Audit & Supervisory Board, to enhance the effectiveness of audits by Audit & Supervisory Board members Having set the Risk Management and Governance Office (now Governance Promotion Department) to enhance governance of the entire Group Having set the International Trade Management Department to develop the compliance management system for import and export transactions Creating a Compliance Guidebook in multiple languages that explains the Group Code of Conduct, holding briefing sessions on the Code using the guidebook
3 Risks related to human resources	Impact	<ul style="list-style-type: none"> Difficulty in acquiring and securing excellent personnel
	Measures	<ul style="list-style-type: none"> Actively hiring and promoting women, foreign nationals, and mid-career professionals Conducting an engagement survey that asks about motivation and comfort in workplaces of the Group employees Building a training system intended to train successors (officers and executives) through clarifying key positions and identifying employee competencies (required behavior and attitude)
4 Risks from large-scale natural disasters	Impact	<ul style="list-style-type: none"> Suspension of business activities due to the occurrence of large-scale natural disasters such as earthquake and tsunami Supply chain disruption, including suspension of business partners’ operations
	Measures	<ul style="list-style-type: none"> Formulation and regular review of BCP and initial response procedures Establishing a rapid recovery system and conducting regular drills for the purpose of initial response Natural disaster hazard surveys at each site, expansion of stockpiles

5 Reputation risks	Impact	<ul style="list-style-type: none"> Reputation risks (damage caused by rumors) by the spread of misinformation, wrong advertisement, or infelicities widely spread through social media The Group’s brand image and social credibility decline, potential impact on operating results and financial condition
	Measures	<ul style="list-style-type: none"> Conducting media training for officers and preparing guidelines
6 Risk of information leakage from cyberattacks	Impact	<ul style="list-style-type: none"> Information leakage due to cyberattacks and accidents related to computer security
	Measures	<ul style="list-style-type: none"> Strengthening Groupwide information security measures through the Information Security Committee chaired by the CEO Identifying the possible scope of impact and damage from cyberattacks Initial response to prevent the spread of damage Conducting employee education and drills on a regular basis
7 Risks from the COVID-19 pandemic	Impact	<ul style="list-style-type: none"> Restrictions on movement, attendance, and activities of the Group and customers. Delay or stagnation of business activities due to an outbreak of infections. Deterioration of profitability due to the postponement, cancellation, or reduction of customers’ capital investment due to recession
	Measures	<ul style="list-style-type: none"> Building the BCP system, accumulating know-how and knowledge to respond to disasters and emergencies Conducting a system of working from home Establishing a special task force to address the pandemic, with the CEO as its head
8 Risks related to climate change	Impact	<ul style="list-style-type: none"> Delays in incoming and outgoing products, damage to production equipment, and shutdowns of our factories due to increased incidence of typhoons, heavy rains, flooding, etc. Risk of employees experiencing heatstroke in factories and other facilities, associated with high temperatures
	Measures	<ul style="list-style-type: none"> Declared our support for the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) We disclose information within the framework of the TCFD recommendations. For details, see “Disclosure of Climate Change Information” Page 80 . Disclosure based on the TCFD Recommendations “The Four Core Elements and Our Initiatives” (1) Governance <ul style="list-style-type: none"> We have set up the Sustainability Committee under the direct control of the CEO. Board of Directors resolves necessary measures are passed based on reports from the Committee. (2) Strategy <ul style="list-style-type: none"> As a result of scenario analysis, it was found that the impact of climate change on our business performance is minor, although business costs increased. On the other hand, we expect growth in demand for our products and services, which will exceed the above negative impact. (3) Risk management <ul style="list-style-type: none"> The Sustainability Committee manages risks in a centralized manner and reports those that have high priority to the Board of Directors. (4) Metrics and targets <ul style="list-style-type: none"> We formulated Daifuku Environmental Vision 2050 in 2021. We have set targets for 2030 based on the Vision. For details, see “Contribute to the environment through our business” Page 76 .

Strengthening corporate governance

Correspondence to Japan's Corporate Governance Code

In November 2021, the Daifuku Group developed its Basic Policy for Corporate Governance and the Disclosure Based on the Principles of Japan's Corporate Governance Code. We did this with the aim of complying with the revision to the Tokyo Stock Exchange's Corporate Governance Code in June 2021. The Disclosure describes the state of compliance with all 83 principles in the Corporate Governance Code one by one.

Normally, compliance reports on revisions to the Corporate Governance Code are made by submitting corporate governance reports. We selected the method of timely disclosure of the report. This is designed to deepen public understanding of the Group's stance and its sincere efforts to carry out its corporate governance reform. For details, see the following news release.

 For details, see our website:
www.daifuku.com/ir/assets/20211126_01e.pdf

Initiatives for strengthening compliance

1 Creating the Compliance Guidebook

We have established the Group Code of Conduct that defines the fundamental principles we (all directors, officers and employees of the Group) should follow with the aim of realizing the company creed and management philosophy.

The Code defines the Group's compliance as "acting in good faith and comply with all applicable laws, rules, regulations and social norms of each country in all aspects of our business activities" (see Figure 1).

In 2021, we created the Compliance Guidebook to give plain explanations of the Group Code of Conduct, publishing it in multiple languages. The CEO addressed all personnel in the Group about the concept of compliance. We continue efforts to raise staff's awareness about compliance and to disseminate it throughout the Group.

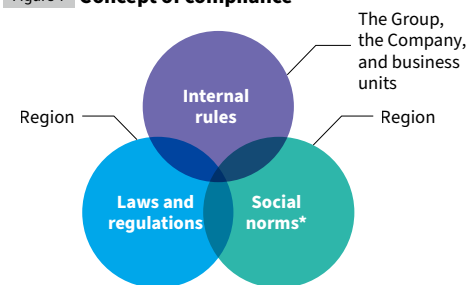
2 Compliance awareness month campaign

The Company conducts compliance training for its officers and employees. Specifically, every October is designated as a month for compliance awareness, and we are conducting a penetration plan with case studies. In fiscal 2021, we held discussions with experts and outside directors on the theme of governance, and distributed content on the internal intranet.



In-house newsletter article where the CEO appeals to raise compliance awareness

Figure 1 Concept of compliance



* Social norms: Including the discipline, tradition, practices, religion, morality and other ethical norms that should be observed in social life

Whistleblowing system

The Company shall develop and operate a whistleblowing system for the early detection of risks associated with corporate activities and the prevention of material problems.

We accept reports via two routes, namely one internal and one external route, to ensure a more effective whistleblowing system. Anonymous reporting is possible, and it is available in eight different languages for executives and employees of the Group, as well as ongoing business partners (suppliers) from different sites around the world.

The Internal Reporting Secretariat is responsible for the administration of this system and verifies the facts of the report, determines the course of action to take, and handles investigations, among other duties. Should a compliance problem be identified through the investigation, we will take corrective action and measures to prevent a recurrence. Critical problems are reported to the Compliance Committee and the Audit & Supervisory Board.

Anti-bribery

In accordance with laws and regulations, the Company and the entire Group take a resolute attitude toward antisocial forces and groups that threaten the order and safety of civil society. In addition, we will develop and disseminate anti-bribery regulations, etc., in response to compliance risk on a global level.

The Group has established policies for responding to organized crime groupings and other antisocial forces in the Group Code of Conduct, and ensures that Group officers and employees are fully aware of those policies. In terms of anti-bribery measures, in addition to regulations for providing entertainment, gifts, etc., in April 2021, new rules for receiving entertainment and gifts were established. The Group is committed to strengthening its anti-corruption efforts by engaging in sound and transparent transactions Groupwide.

Daifuku receives METI Minister's Award for Corporate Governance of the Year 2021

In January 2022, Daifuku received a special METI Minister's Award for Corporate Governance of the Year 2021, sponsored by the Japan Association of Corporate Directors (JACD).

The point of this year's review is in terms of a company's selection and succession of presidents and CEOs, the planning of which are fundamental for corporate governance. We earned high marks for outstanding achievements by global management from a medium- and long-term perspective in addition to fulfilling all of the criteria mentioned below.

- Election process with a focus on objectivity that involves the Advisory Committee
- Swiftiness in change of president
- Formation of an executive team led by the new president, improvement of the process for electing the president, reforms helpful to successor planning, and communication and information sharing with outside directors
- Display of integrity required of the management to sincerely answer expectations of stakeholders

For the functions played by the Advisory Committee and outside directors, refer to the Roundtable Discussion with the Outside Directors [▶ Page 100](#). Outside directors play significant roles in deliberations for the election of corporate officers from among whom future management members and the CEO will be elected and in acting as lecturers in leader development training and training for senior managers (as prospective corporate officers).



Daifuku received the award together with other companies with an excellent reputation for corporate governance. (Daifuku president and CEO Hiroshi Geshiro on the far left)

Management (As of June 24, 2022)

Representative Director



Hiroshi Geshiro

President and CEO

In 2018, Hiroshi Geshiro became the president and CEO. His strength is abundant sales experience worldwide. With appropriate risk management, he drove the achievement of higher sales and profits even in the face of the COVID-19 pandemic. In addition, he demonstrates the leadership in establishing a system suitable for the Daifuku Group across the globe, including Groupwide production reforms by DX and strengthening efforts for sustainability management.



Yoshiaki Ozawa

Outside Director

Yoshiaki Ozawa has ample experience as a certified public accountant, keen insights into accounting, and a wealth of experience in business, including working outside Japan. He is a university professor focusing on business analysis. He has been an outside director at Daifuku since 2014.



Mineo Sakai

Outside Director

Mineo Sakai has a strong track record and extensive experience in corporate management, including serving as CEO and chairman of a leading IT company. He has been an outside director at Daifuku since 2018.

Directors



Shuichi Honda

President and CEO of Daifuku North America Holding Company

Director
Senior Managing Officer

Shuichi Honda promotes globalized management based on his international knowledge and involvement in managing a Japanese megabank, while serving as the head of a North American holding company.



Seiji Sato

Cleanroom Global Business Head
Cleanroom Division Manager

Director
Managing Officer

Seiji Sato has a wide range of experience and knowledge in semiconductor and flat-panel display production line systems, as well as management experience in a non-Japan subsidiary.



Kaku Kato

Outside Director

Kaku Kato has abundant experience and extensive knowledge in corporate management also in terms of health, safety, environment, society, and corporate governance and a wealth of non-Japan experience. He is a visiting professor focusing on law at a university. He has been an outside director at Daifuku since 2019.



Keiko Kaneko

Outside Director

Keiko Kaneko has abundant experience and extensive knowledge in corporate legal affairs as a legal specialist and has experience working at a trading company and as an associate professor at a graduate school. She has been an outside director at Daifuku since 2019.



Toshiaki Hayashi

Automotive and Airport Global Business Head
Chief Officer of Shiga Works

Director
Managing Officer

Toshiaki Hayashi's career centers on engineering and production of the Automotive business, as well as management experience in a non-Japan subsidiary.



Hiroshi Nobuta

Intralogistics Global Business Head
Intralogistics Division Manager

Director
Managing Officer

Hiroshi Nobuta has abundant experience in the field of the mainstay Intralogistics business centered on engineering and sales, as well as management experience in a non-Japan subsidiary.

Audit & Supervisory Board members



Tsukasa Saito

Audit & Supervisory Board Member

Tsukasa Saito is well versed in the Group's business operation with deep insight mainly in the field of finance and accounting, management experience in a non-Japan subsidiary, and being involved in duties of Audit & Supervisory Board members.



Ryosuke Aihara

Audit & Supervisory Board Member (outside)

Ryosuke Aihara, as a legal specialist, has a wealth of experience and deep insight into corporate governance and compliance. He has been an outside member of the Audit & Supervisory Board of Daifuku since 2016.



Tsukasa Miyajima

Audit & Supervisory Board Member (outside)

Tsukasa Miyajima is a university professor specializing in legal affairs, and as an academic expert and a legal specialist, has extensive experience and deep insight. He has been an outside member of the Audit & Supervisory Board of Daifuku since 2018.



Nobuo Wada

Audit & Supervisory Board Member (outside)

Nobuo Wada has long been a university professor majoring in experimental research into condensed matter physics and has deep insight and extensive experience as an academic expert. He has been an outside member of the Audit & Supervisory Board of Daifuku since 2019.

Officers

1 Expertise, knowledge, experience 2 International experience (* Including management experience) 3 Gender 4 Age

Officers (excluding those who are concurrently appointed as directors)

Managing Officers

Akihiko Kishida

Chairman of Daifuku (China) Co., Ltd.

1 Production 2 China* 3 Male 4 63

Yoshiyuki Horiba

Auto Wash Global Business Head
Auto Wash Division Manager
President of Daifuku Plusmore Co., Ltd.

1 Design and development 2 —
3 Male 4 63

Takaya Uemoto

Deputy Automotive and
Airport Global Business Head
Airport Division Manager

1 Installation, service 2 U.S.A.* 3 Male 4 61

Yasuhisa Mishina

Production Officer
DX Division Manager
Intralogistics Production Head

1 Software, design, production 2 —
3 Male 4 62

Hideaki Takubo

Corporate Functions Head
Human Resources and General Affairs
Division Manager

1 HR, general affairs 2 China* 3 Male 4 61

Takuya Gondoh

Advanced Technology & New Business
Development Officer
Intralogistics Engineering Head

1 Engineering, production 2 — 3 Male 4 61

Audit Officer

Toshikatsu Takahashi

Audit & Supervisory Board Office Manager

1 HR, general affairs 2 China* 3 Male 4 58

Corporate Officers

Akihiko Nishimura

Deputy Automotive and Airport Global Business Head
Automotive Division Manager
Automotive Sales and Service Business Strategy

1 Installation, service, sales 2 Canada, U.S.A.*
3 Male 4 59

Hiroaki Kita

Safety and Health Management

1 Design, product development
2 U.K., Germany, U.S.A., China*
3 Male 4 61

Norihito Toriya

Intralogistics Sales Head

1 Sales 2 — 3 Male 4 58

Tetsuya Hibi

Deputy Corporate Functions Head
Finance and Accounting Division Manager

1 Finance, accounting 2 U.S.A.* 3 Male 4 58

Seiji Yamamoto

Intralogistics Installation and Services Head

1 Installation, service 2 Thailand* 3 Male 4 57

Tsutomu Maeda

Automotive Domestic Market Business Unit Head
Automotive Global Production Head

1 Installation, service 2 U.S.A., India*
3 Male 4 56

Tomoaki Terai

Cleanroom Production Head

1 Production 2 U.S.A., Taiwan* 3 Male 4 53

Atsushi Sonoda

Cleanroom Sales Head
Chief Officer of Komaki Works

1 Sales 2 South Korea 3 Male 4 53

Roundtable Discussion with the Outside Directors

Daifuku is currently acting on its three-year business plan Value Transformation 2023 and its Sustainability Action Plan—its “cornerstones of management.” These plans draw from the Company’s management philosophy, which was revised in fiscal 2021. We held a roundtable discussion with our outside directors, at which we asked their opinions on Daifuku’s management philosophy, the significance of its “cornerstones of management” approach, and future issues for the Company related to value creation.

Q1

How would you evaluate the activities of the Board of Directors in fiscal 2021?

Ozawa The exchange of opinions during Board meetings was much more active in fiscal 2021 than in previous years. Under the leadership of Daifuku President and CEO Hiroshi Geshiro, there was lively discussion of strategies that went beyond the boundaries of the Company’s business units. This allowed Daifuku to follow its natural tendency to stay on the offense and keep taking on challenges.

Kato Not only was it easy to have discussions at Board meetings, the executive directors made a concerted effort to listen to the opinions of the outside directors. The agenda for meetings has been adjusted to reduce discussions related to the minutiae of business execution and allot more time for discussion about more important issues. I feel that the Daifuku Group as a whole has a very free and open corporate culture.

Kaneko Improvements to management of the Board of Directors have also been implemented quickly. When proposals were made to enhance discussion methods, they were incorporated promptly to improve efficiency. A notable characteristic of the Company is the lively discussion that takes place at Board meetings.

Sakai Over the past few years, Mr. Geshiro has spearheaded efforts to raise operational efficiency, sorting out important matters from unimportant ones, leading to a considerable improvement in the quality of our discussions at Board meetings. I hope we will be able to hear even more from inside officers in the future.

Yoshiaki Ozawa
Outside Director

Mineo Sakai
Outside Director

Kaku Kato
Outside Director

Keiko Kaneko
Outside Director

Q2

What role do you think Daifuku should play in society in light of its new management philosophy “Automation that Inspires?”

Ozawa I believe this is a management philosophy that strives to realize a sustainable society, aims to provide optimal solutions for customers, and encourages employees to excel, and is emblematic of Daifuku and its “Hini Arata” company creed. In particular, Daifuku’s smart logistics are extremely useful to realizing a sustainable society. In addition, the Company’s commitment to maintaining an attitude among its employees of taking on challenges echoes the phrase “leave no one behind,” a principle of the SDGs.

Sakai I was thoroughly impressed by the Company’s strong resolve and sense of mission after reading a message from one of the Board members in the Company’s in-house newsletter, published after the revision of the management philosophy. It stated that “Daifuku is committed to leading the logistics industry using the latest technology, raising the efficiency of on-site work, and improving working environments.” I believe it is important for Daifuku to be committed not only to raising on-site efficiency but also to fulfilling its social role in terms of enriching people from within.

Kaneko I believe the significance of logistics in society has grown as a result of globalization and the COVID-19 pandemic. This means that the social impact of Daifuku’s technologies, and the work-style, lifestyle, and other reforms that come with it, is on the rise as well. These technologies have amazing possibilities, and when one considers that Daifuku’s primary business is to promote technological innovation in this direction, I expect the Company and its business will enrich the world and inspire people.

Ozawa Purpose-driven management is taking hold both inside and outside Japan. Purpose-driven management refers to management that emphasizes a company’s reason for being. However, it is different from a management philosophy in that it is meant to make employees aware of the direct connection they have to this reason for being. This includes their relationship with a company’s social significance. Purpose-driven management requires us to consider the fundamental purpose of a company’s existence. I believe that Daifuku’s management philosophy is a close reflection of this purpose. It is both realistic and easy for customers and employees to sympathize with. Therefore, I think by taking concrete steps to embody this new philosophy, Daifuku will be able to create new value. That said, Daifuku is a for-profit company, so it cannot cast aside the need to improve profitability. Instead, it must meet this need while also fulfilling its fundamental role to contribute to society as laid out in its management philosophy.

Roundtable Discussion with the Outside Directors

Q3

How do you view the positioning of the three-year business plan and the Sustainability Action Plan as the cornerstones of management?

Kato Daifuku is a company that contributes to social sustainability by expanding its business. As a result, I think it should move forward with both wheels—the three-year business plan and the Sustainability Action Plan—working in tandem rather than separately.

Sakai We could say that both the three-year business plan and the Sustainability Action Plan are pointed in the same direction in terms of realizing a sustainable society. Additionally, when we look at recent social trends, we see that economic and sustainability activities do not remain separate—they inevitably intertwine. I believe it will be important to make sure that steps are taken to ensure these activities are effectively integrated in the future.

Kaneko More and more companies are combining the pursuit of financial targets in their medium-term management plans with their sustainability activities. The thing that differentiates these companies from one another is how committed they are to integrating the two. In the case of Daifuku, Mr. Geshiro has declared the Company's full commitment to positioning the cornerstones of management as a single driving force.

Ozawa Daifuku has set KPIs for each material issue (materiality) highlighted in the Sustainability Action Plan, in addition to numerical targets within the three-year business plan. This established a complementary relationship between the two plans, in that figures for both will be checked, and I expect that the act of closely monitoring both will accelerate this two-wheeled approach going forward.



Kato I will add that it would be even better if the cornerstones of management were promoted in a way that drives employees, such as tying the achievement of each KPI to the evaluation of employees in a business unit. This would keep the Sustainability Action Plan from becoming an empty title.

Q4

Value Transformation 2023 highlights enhancing product value, increasing productivity, and reinforcing its production frameworks as means to improve profitability. What progress did you see in fiscal 2021 along these lines?

Ozawa Over the past year, every business unit has worked across the board to increase productivity and reinforce their production framework, and these efforts are starting to bear fruit. Moreover, Daifuku's strengths lie in its in-house development of hardware and software that make up its systems, and its comprehensive customer support system that covers everything from consulting, design, production, installation and maintenance. Under its current three-year business plan, Daifuku intends to leverage these strengths to enhance product value across the Group, and I look forward to seeing how this plays out in the future.

Sakai ROE for fiscal 2021 was 13.1%, which maintained the Company's goal of 10.0% or higher. This tells me that it is making good progress in terms of these measures. As for increasing productivity and reinforcing production frameworks, Daifuku established the DX Division, which has helped set up a highly accurate and digitalized project management system. The Company is also taking steps to optimize engineering. As well, it has worked to enhance product value by focusing its attention on developing new technology and establishing new businesses, having appointed an officer in charge of these tasks in April 2022. I am looking forward to seeing Daifuku use its world-leading technology to set itself even further apart from other companies going forward.

Q5

Japan's Corporate Governance Code was revised, which required the Board of Directors to enhance its supervisory functions over human capital and other intangible assets. How would you rate Daifuku's current efforts in this regard?

Kaneko I really feel the deep desire of the executive directors to tackle these three profitability-raising strategies based on the discussions and reporting taking place at Board meetings. I am going to enjoy seeing how these proactive efforts manifest from here on out.



Ozawa In the meantime, there are some issues going forward, specifically the matter of reorganizing Daifuku's business portfolio and the strategy for doing so. Instead of continuing to develop several business units in parallel, Daifuku should adopt a more selective and concentrated approach, keeping in mind the Company's core competencies and allocating management resources in their direction.

Kaneko Generally speaking, long-running companies tend not to follow that approach, but I hope the Company does eventually assess its portfolio from a medium- to long-term perspective, even if it does not do so immediately.

Ozawa One of the main revisions in the latest iteration of the Code centers on ensuring diversity among human resources, which is something the Company is currently addressing. However, in the case of women in managerial positions, there are still no women on the Board of Directors from within the Company nor are there any female executive officers. Daifuku would do well to look into this in the future.

Kaneko The Company has been steadily implementing measures aimed at improving gender diversity, and this includes its ongoing practice of hiring a certain number of women, but there is still room for improvement. As for the issue of women in managerial positions, this is related to the need for companies to have a good foundation of talented and motivated human resources. Women working at Japanese companies face obstacles that prevent them from achieving the long tenure required for these managerial positions. One of the reasons for this is that the long working hours may make it difficult for people to balance work with their personal lives. When developing a personnel system, companies have to ensure mechanisms are in place that make it easy for people raising children to perform their duties. This applies to men as well. Essentially, companies need a system that will allow motivated people to continue working for many years. Daifuku has long been a company that has advocated for reforms to support families with small children, and has a variety of mechanisms in place to do so.

Kato It is important that excellent human resources are evaluated fairly and placed in suitable positions regardless of who they are, versus simply adhering to a hiring quota or similar framework. It is better to make an active effort to hire exceptional human resources, as this will increase the number of women and non-Japanese employees and naturally cause new company values to develop.

Roundtable Discussion with the Outside Directors

Q6

Please tell us about the activities of the Advisory Committee.

Sakai About 200 years ago, Japanese agriculturalist, philosopher, and economist Sontoku Ninomiya, a man who worked tirelessly to restore devastated farming villages, stated that “without morality, economy is a crime, and without economy, morality is idle chatter.” As Ninomiya says, companies need to fulfill their social responsibilities while they increase their profits, which means there needs to be effective governance regarding sustainability. Japan’s Corporate Governance Code has been revised against the backdrop of recent social demands, such as initiatives pertaining to human resources and other intangible assets, and Daifuku is making a sincere effort to respond to each one. These demands always underpin our discussions at Board meetings as well.

Kato I agree—Daifuku is both humble and sincere. Naturally, it will not announce things it has not done as if they are complete. Instead, the Company accepts that it has things it needs to work on and then makes an earnest attempt to improve them.

Ozawa At the Advisory Committee, we outside directors make an active effort to scrutinize decisions related to nomination policies and procedures, and evaluations of director performance. We also look into matters regarding remuneration, watching over the investigation and formulation of remuneration policies and making sure they are appropriate. In fiscal 2021, the Committee held five meetings, with plenty of productive discussion.

Sakai From my own experience as a CEO, I know that potential candidates to succeed as company president need to have their eyes on the future and take on a broad range of future-oriented work while gaining the necessary experience. When candidates go through this cultivation process, consensus and support naturally forms around one who stands out as the next leader. In fact, this happens at many companies; over time, an opinion forms internally that one person will be at the top of the Company in the future.



Ozawa When we look for future executives, and by extension, future CEO candidates, we make deliberations with reference to criteria such as personality/humanity, reputation, insight, executive ability, management perspective, and active involvement in managerial matters. We are also establishing a framework that provides multiple opportunities to gain a direct understanding of the personality and thought process of candidates for successor. To do this, outside directors take part in internal candidate selection systems, such as leader development training and training for senior management, aimed at cultivating candidates for executive officers, serving as instructors and by participating in important non-Board meetings with these candidates. The Advisory Committee then deliberates on the appointment of the CEO based on objective criteria that takes into account the candidate’s qualifications and other factors.

Sakai There needs to be more opportunities for us outside directors to share information with inside directors, since they know more about the human resources within the Group.

Kato We need to know the true character of these candidates, as opposed to official statements from the Board alone. However, since the outside directors have access to only a tiny bit of this information, our main role as outside directors is to point out whether or not due process is being followed at each stage of the selection process. That being said, I would like to have this information to ensure there is no feeling that we picked the wrong person.



Kaneko Of course, it is essential to have a systematic selection process right up to the time of election, but the most important thing when training and selecting a successor candidate is making sure the right candidate is elected at the right time.

Sakai The first year I attended Daifuku’s General Meeting of Shareholders was in 2018, when the Company changed presidents. When the previous president Masaki Hojo, was asked why Mr. Geshiro was selected, he simply answered “He is sincere.” This answer left a strong impression on me. Since then, I watched over his management of Daifuku as an outside director and have seen the Company make steady progress over the course of four years. This reaffirms to me that Mr. Hojo was correct, and that Daifuku has a good system for developing and selecting successors.

Kaneko It is definitely a case of the right person being put in the right position. I believe no company president out there conducts day-to-day management without thinking about who will eventually succeed them, and Daifuku is devoting considerable efforts to the coming generation.

Sakai The sitting president of a company will naturally have the best understanding about developing and selecting the next president, so it is a good idea to listen to the current president, identify what they think is important, and use that information in our own investigations.

To Stakeholders

Daifuku has been a pioneer, always leading the pack in the material handling industry. With its total support system, covering consulting, engineering, design, manufacturing, installation, and after-sales services, we feel that the Company is a true example of the Blue Ocean Strategy, which entails venturing into an untapped market or reinventing an existing one. However, material handling will not be a blue ocean forever, and the Company needs to venture into new fields. Daifuku is still a growing company, and there is much to look forward to.

Moreover, as the Company expands, it will help end labor shortages and improve logistics, which will be a boon to both stakeholders and society. We would encourage you all to look forward to what is coming in this regard as well, and know that we will provide our full support as outside directors.